DISCUSSION OF REMEDIAL LOANS[1]

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IN discussing Mr. Ham's very excellent paper on loan agencies, I want to say in the first place that I find myself thoroughly in accord with his remarks as to the demand for a constructive program. Too much emphasis cannot be laid upon the necessity for some agency to take the place of the loan shark. The loan shark occupies a very important and necessary position in the lives of thousands of our citizens. He supplies a need. He has a commodity to sell for which there is a demand.

In our investigation last summer we effectively curbed for the time being the activities of several notorious loan sharks in this city. Those gentlemen are to-day operating as they did before our investigation began—perhaps not so openly, certainly with a little more care, but they are nevertheless conducting an extensive business, for the simple reason that there is a demand for their commodity which nobody else is able to supply.

Before any campaign to oust the loan shark can be effective, there must be some agency equipped and prepared to take his place. Indeed, no campaign of extermination will ever succeed. No amount of condemnation will ever be effective. No negative laws, however drastic, can permanently relieve the present abuses. As long as we have citizens who want to borrow money—and we shall always have them—so long will loan agencies of some kind continue, and it is only the better sort that will succeed in driving out the worse.

So I say that any constructive program, such as the one that Mr. Ham has outlined to-day, which aims at the substitution of remedial loan institutions for loan sharks is the only plan which can effectively and permanently improve the situation.

[1] Read at the meeting of the Academy of Political Science, November 11, 1911.

I said a moment ago that no drastic legislation can of itself relieve the present abuses. That does not mean that legislation is unnecessary. It means that we must legislate constructively and not negatively. This, of course, is entirely apart from the coöperative loan associations voluntarily established for employes in various industrial concerns. Here no legislation is needed. The remedy is at hand. But constructive legislation is needed, as Mr. Ham has pointed out, to encourage the entrance of private capital into the small loan business for the purpose of serving the man on a salary. No reputable concern to-day would engage in such a business. Entirely apart from its unwholesome associations, no such concern, in New York state at least, could obey the law and make a profit. Under the present conditions one of these two courses would have to be sacrificed.

In carrying out constructive legislation along this line, there are two obstacles to be encountered: first, the influence of the vicious, and second, the ignorance of the virtuous. The first obstacle discloses itself in the powerful lobby maintained by small loan interests in every legislature in this country. The ugly connection between Albany and certain loan agencies in this city which we discovered in the course of our investigation last summer, the many payments of so-called counsel fees to the gentleman from Syracuse, the mysterious relation of certain up-state politicians with the smug Congregational deacon from Binghamton, all give silent but damning testimony of this dark phase of our problem.

Our second obstacle is the ignorance of the virtuous, and perhaps it is even more difficult to surmount than the one we have just mentioned. Mr. Ham has already spoken of it. It is the belief that banking rates of interest can be imposed on a business which is conducted without security. It is the blind opinion that you can run a small loan business at 6 % per annum and make it pay. It is the false hope that laws prohibiting an interest rate in excess of 6 % can be enforced. Before adequate legislation can be had these illusions must be destroyed, and the only way in which they can be destroyed is by a thorough knowledge of the facts brought about through an educational campaign.

For that reason I regret very much that Governor Dix saw fit to veto, last July, Senator Burd's bill for the appointment of a commission to study the question of small loan agencies. It is possible that such a commission would not have acquired any more information on the subject than the experts of the Russell Sage Foundation now possess. But the real work of such a commission would have been educational. It would have helped to dispel the belief not only of our legislators, but of the mass of people whom they represent, that 2½ % or 3 % a month, even if it does amount to 36 % a year, is an excessive interest rate for a business conducted without security.

I believe that in time we shall have in all our states a law similar to what has been outlined this afternoon: securing adequate control over loan agencies by state authorities; allowing a reasonable return for money invested, such as to attract private capital; shielding the borrower from all oppression and injustice. Only through such a constructive law, which will bring the business into the light, can we hope to see the loan shark exterminated, and the wage-earner protected in his need.